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September 27, 2015

Filed Via DelaFile

Robert J. Howatt
Executive Director
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: PSC Docket No. 14-193
Delmarva Power/Exelon Merger

Dear Mr. Howatt:

Attached please find a document entitled "PHI Service Company Integration Plan." The Public Service Commission of the District of Columbia (the "D.C. Commission") issued D.C. Commission Order No. 18148, which approved the merger of Exelon Corporation ("Exelon") and Pepco Holdings, Inc. ("PHI"). D.C. Commission Order No. 18148 contained an obligation that within six months of merger close, Exelon and Pepco would file a plan to integrate PHI Service Company into Exelon Business Service Company, LLC.

Delmarva Power anticipates that by the time a final order is entered in the above-referenced docket at the Delaware Commission, there will be a specific Delaware order with a merger-related obligation that the filing of the PHI Service Company Integration Plan can be tied to. We anticipate the obligation will be included in a future Delaware Commission order related to the non-financial terms of the Most Favored Nations clause of the Amended Merger Settlement Agreement. At this point, however, there is no such specific obligation in Delaware. Accordingly, Delmarva Power and Exelon are filing the attached as a general compliance filing under Docket No. 14-193.

Please do not hesitate to contact me if you have any questions.

Sincerely,



Todd L. Goodman

att.

PHI SERVICE COMPANY INTEGRATION PLAN

The following describes the proposal of Exelon Corporation ("Exelon") and Potomac Electric Power Company ("Pepco" or the "Company") to address Commitment No. 88 of Attachment B of Order No. 18148¹ in Formal Case No. 1119. Commitment No. 88 addresses the integration of the PHI Service Company ("PHISCo"), which provides certain services to Pepco and other utility subsidiaries of Pepco Holdings LLC,² into the Exelon Business Service Company, LLC ("EBSC") and reads as follows:

Immediately following the Merger close, PHISCo will remain as a subsidiary of PHI and will continue to perform functions and to maintain related assets currently involved in providing services exclusively to the PHI utilities. Other functions that are currently provided by PHISCo, including those that are provided to PHI utilities and other current subsidiaries, will be transferred to EBSC or another Exelon affiliate in a phased transition over a period of time following the Merger closing. To address concerns that there would be two service companies under the proposed Merger, Exelon will file a plan within six (6) months after the Merger's close for Commission approval to integrate PHISCo within EBSC and other entities. The plan to integrate PHISCo with EBSC shall not include any net transfer of PHISCo employees located in the District of Columbia pre-Merger to any location outside of the District, subject to the provisions of Paragraph 19.

Commitment No. 88 is focused on addressing concerns identified by the Commission in Order No. 17947, which initially denied the merger.³ Specifically, in Order No. 17947, the Commission noted that the proposed merger would add a second service company, EBSC, even though the Commission and parties have already raised concerns about complexities surrounding the ability to verify the appropriate cost allocations from PHISCo to Pepco.⁴ The Commission stated that "ensuring the proper allocation of service company costs ... will require increased time and scrutiny on the part of the Commission and all of the companies involved."⁵ Pepco and Exelon heard these concerns, and Commitment No. 88 is meant to address them.

¹ *In the Matter of the Joint Application of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC, and New Special Purpose Entity, LLC for Authorization and Approval of Proposed Merger Transaction*, Formal Case No. 1119 (Mar. 23, 2016). The Commission issued Order 18148 (March 23, 2016) approving the merger with condition, and subsequently issued Order No. 18160 (April 4, 2016), correcting certain errors in Order No. 18148 and in Attachment B. Order No. 18160 however did not modify Commitment No. 88.

² Pepco Holdings LLC ("PHI") is also the parent company of Delmarva Power & Light Company that serves customers in Maryland and Delaware and Atlantic City Electric Company that serves customers in New Jersey.

³ Order No. 17947 (Aug. 27, 2015).

⁴ Order No. 17947 at P 195.

⁵ *Id.*

In this filing, Pepco and Exelon present a plan for integration of nearly all PHISCo employees into EBSC ("Integration Plan") and an alternative option for Commission consideration to integrate only PHISCo employees in certain corporate functions into EBSC ("Alternative Plan"). EBSC is the Exelon Corporate Shared Service Company that provides, among other services, corporate management and administrative services to the Exelon affiliates.

In order to meet the requirements of another merger commitment, Commitment No. 73, it is not possible to completely eliminate PHISCo as a service company for PHI and the PHI utilities. Under Commitment No. 73, the PHI CEO and PHI senior officers who report directly to the PHI CEO may not hold positions as officers or employees of Exelon or an Exelon affiliate other than PHI, PHISCo, or the PHI utilities.⁶ Therefore, a limited number of PHI executives will need to remain employed by PHISCo with the costs of their employment allocated to the PHI utilities.⁷

Under Pepco's proposed Integration Plan, nearly all functions currently being performed by PHISCo and employees related to those functions will be transferred to EBSC. The Integration Plan is consistent with the language of Commitment No. 88 and, following its implementation, nearly all service company costs allocated to Pepco will come from one service company, EBSC. However, the costs associated with the employees who must remain employed by PHISCo will be allocated from PHISCo to Pepco and the other PHI utilities.

The key aspects of the Integration Plan are explained in more detail in Section III of this filing. If approved, and as further explained in Section III, the following would occur:

- Transition employment of approximately 1,800 PHISCo employees
- Modify current EBSC allocation methods and billing ratios
- Potential transfer of PHISCo utility specific assets to PHI utilities, including to Pepco
- Potential transfer of PHISCo corporate assets to EBSC
- Change design and configuration of general ledger, work management, payroll and other IT systems

The timing of the completion of the Integration Plan will be dependent on the amount and types of integration activities required under this Plan, which are described more fully below, the timing of other integration projects, and receiving approval for the plan. Pepco and Exelon

⁶ See Order No. 18148 in Case No. 1119, Paragraph 73 in Attachment B, Page No. 16, entered by the District of Columbia Public Service Commission on March 23, 2016; This is also a condition of the merger approval in Maryland, New Jersey and Delaware. See Order No. 86990 in Case No. 9361, Condition 30 in Appendix A, Page No. A - 32, entered by the Maryland Public Service Commission on May 15, 2015; See Stipulation of Settlement in Docket No. EM14060581, Paragraph 41, Page No. 15, entered by the New Jersey Board of Public Utilities on January 7, 2015. See the Amended Settlement Agreement as approved by Order No. 8746 in Docket No. 14-193, Paragraph 30, Page No. 8, entered by the Delaware Public Service Commission on June 2, 2015.

⁷ This structure was also one of the facts relied upon in the nonconsolidation opinion provided in compliance with Condition No. 92. See "Non-Consolidation Opinion" letter, Formal Case No. 1119, page 4, P13 (July 5, 2016).

currently estimate that implementation would be complete by March 31, 2018 if Commission approval of the Integration Plan as presented is given by February 1, 2017 and no approvals from other jurisdictions are required.⁸

In addition to the proposed Integration Plan, Pepco also presents an Alternative Plan for Commission consideration. Under this Alternative Plan, only corporate shared service functions and related employees in PHISCo would be transferred to EBSC, while other functions that are more closely related to utility operations and the PHISCo employees dedicated to those functions would remain within PHISCo. The Alternative Plan presents various advantages including ease of integration, lower implementation costs, and alignment to EBSC and legacy Exelon utilities⁹ structure, and such alignment will facilitate benchmarking and operational comparisons between the utility companies.

As with the Integration Plan, the key aspects of this Alternative Plan are explained in more detail in this filing (Section IV). In order to effectuate the Alternative Plan, the following would occur:

- Transition employment of approximately 300 PHISCo employees to EBSC
- Modify some designs and configurations of general ledger, work management, payroll and other IT systems

Under the Alternative Plan, there would be limited or no transfers of assets from PHISCo and there would be minimal or no changes to the current cost allocation methods. The Alternative Plan, which aligns with the plans designed by the integration teams while the merger was pending and therefore initiated when the merger closed, could be completed by May 2017.

Under both the Integration Plan and the Alternative Plan, there will be no net transfer of PHISCo employees in the District of Columbia, and neither option prevents Pepco from fulfilling any of the other employee-related merger protections. In addition, the two plans do not affect employee physical work locations or utility-related job functions. Instead, the plans would transfer nearly all, or some, employees to a different corporate affiliate. Also, given that both plans would transfer at least some employees from PHISCo to EBSC, both plans would also necessitate changes to payroll and other Human Resource systems and records, and would move some employees outside of the ring-fenced entity, PH Holdco LLC.

Similarly, neither the Integration Plan nor the Alternative Plan completely eliminates the need for two service companies — and related allocations to Pepco from two service companies. The number of service company allocations to Pepco is expected to be the same under both plans. However, the Alternative Plan would structure the service companies such that core

⁸ In either the Integration Plan or the Alternative Plan, some employees will be transferred by May 2017.

⁹ Exelon's legacy electric distribution utilities are Commonwealth Edison Company ("ComEd"), which serves customers in Illinois; PECO Energy Company ("PECO"), serving customers in Pennsylvania; and Baltimore Gas and Electric Company ("BGE") which serves customers in Maryland.

utility support function costs allocated to Pepco would come from PHISCo and more general corporate function costs would come from EBSC, thus more clearly identifying the costs and potentially assisting in the understanding and review of the costs by external parties.

I. Current Structure of PHISCo

PHISCo provides shared operational and general and administrative support specific to PHI's three utilities (Atlantic City Electric Company, Pepco, and Delmarva Power & Light Company). These shared services span a variety of functions, including:

- Executive Management
- Procurement and Administrative Services
 - Includes security, vehicle and building maintenance, supply chain management, real estate services
- Financial Services
 - Includes accounts payable, payroll, asset and project accounting, budgeting, treasury and finance, risk management, financial and tax accounting
- Insurance Coverage and Services
- Human Resources
- Legal Services
- Audit Services
- Customer Services
 - Includes customer service centers, call centers, billing, credit and collections, metering services and systems, customer systems
- Information Technology
- Regulatory Affairs
- External Affairs
 - Includes corporate communications, employee communications, corporate contributions, governmental affairs
- Environmental Services
 - Includes oversight of environmental concerns relate to air, water, land, and waste and regulatory compliance
- Safety Services
- Regulated Electric and Gas Services
 - Includes system operations services, power procurement and planning, asset management, interconnection services, distribution/substation/transmission engineering, construction management, electric maintenance, and forestry

II. Current Structure of EBSC

EBSC is the Exelon shared service company that provides corporate management and administrative services to the Exelon affiliates including services such as:

- Executive Management
- Human Resources
- Financial Services
- Legal Services
- Corporate Strategy
- Insurance
- Information Technology, and
- Supply

Unlike PHISCo, EBSC does not provide services that are part of the direct utility operations of ComEd, PECO or BGE, such as customer services (call center operations, billing, and credit and collections) or shared regulated electric and gas services, as described above. The employees engaged in these operations for ComEd, PECO, and BGE are employees of the specific utility they support and the related costs are incurred directly by each utility and managed by each utility. Thus, the current EBSC structure facilitates comparison and benchmarking of ComEd, PECO, and BGE. The Alternative Plan best aligns to the current EBSC structure and would allow comparison and benchmarking for ComEd, PECO, BGE and PHI.

III. Integration Plan

The Integration Plan for PHISCo will include transferring nearly all employees and obligations¹⁰ from PHISCo to EBSC.¹¹ The principal feature of this plan from an external perspective is that it would (with limited exceptions due to Commitment No. 73) distribute costs to Pepco from only one service company — EBSC. As stated above, the transfer of current PHISCo employees into EBSC will not conflict with the merger commitments related to employee benefits and will not result in a net transfer of PHI or PHISCo employees out of the District of Columbia.

¹⁰ Such obligations include those related to current and past employees, such as pension and benefit obligations, as well as vendors performing services for PHISCo.

¹¹ The PHI CEO and senior officers of PHI who report directly to the PHI CEO must remain employed by PHISCo to fulfill Commitment No. 73 and the non-consolidation opinion.

The following are the key areas that will be impacted by this Integration Plan:

- Employee Impact:

Approximately 1,800 employees,¹² which include approximately 350 union employees,¹³ will be transferred from employment by PHISCo to employment by EBSC. This will require modifications to payroll and other Human Resource records and associated systems. This transfer will also result in a significant number of employees who directly support the operations of the PHI utilities to be moved outside of the ring-fenced entity, PH Holdco LLC, and into EBSC.

- PHISCo Structure:

Following the integration, most service company costs allocated to Pepco will come from one service company, EBSC. However, PHISCo will be required to continue to have a small number of employees to fulfill the merger commitment that the PHI CEO and PHI senior officers who report directly to the PHI CEO may not be officers or employees of Exelon affiliates outside the ring-fencing structure. Because these employees will be supporting more than one PHI utility, PHISCo will continue as a shared service company and allocate a portion of these costs to Pepco.

- EBSC Structure:

Following the integration, EBSC will continue to offer the same pre-merger corporate management and administrative services to all its affiliates. These EBSC "corporate services" will be expanded to include services to PHI. EBSC corporate services include areas that have consolidated tasks associated with all Exelon companies into one support team. For example, financial reporting, within the financial services area, is responsible for preparing Exelon's entire financial statement package. This team has been expanded to include PHI's information within this package.

Additionally, EBSC will include a new area of services specific to the operations and support of only PHI's utilities. These PHI "operational services" would not be consolidated to include all Exelon affiliates. Comparable "operational services" are provided directly within Exelon's other operating utility affiliates (ComEd, PECO, and BGE). The PHI operational teams are dedicated to supporting efforts specifically relating to PHI. For example, Legal will have a team focused on supporting the regulatory issues for only PHI's utilities.

¹² As of January 1, 2016.

¹³ Subject to any collective bargaining agreement modifications that are deemed necessary.

See Attachment 1, page 1, for a chart showing the future structure of PHISCo and EBSC under the Integration Plan.

This Integration Plan will result in an increase in activities billed within EBSC before being billed to PHI's utilities. This will not change the amount billed to Pepco, but will create a two-step billing process within EBSC. For example, corporate services such as IT will need to be billed to each of the EBSC PHI operational service areas within EBSC before the area costs are billed out to the PHI utilities. This intra-company billing is required so that the costs are assigned to and follow the PHI dedicated users of these IT services and because the PHI dedicated users of these IT services are in EBSC, while comparable users are within ComEd, BGE, PECO or other Exelon affiliates. This structure will limit the potential for Exelon's other utilities cross subsidizing PHI utilities.

- Asset Transfer and Regulatory:

In addition to the integration of employees and other activity that will move to EBSC, assets that are recorded at PHISCo may need to be transferred to the respective PHI utilities or transferred to EBSC. These assets primarily consist of those related to Information Technology, the Customer Relationship Management and Billing platform, and office-related assets. If transfers of assets are required, Pepco will inform the Commission when such transfers are completed and will explain Pepco's District of Columbia share of the value of the assets. This filing would be made following Commission approval of the plan. For the other PHI utilities, transfers of assets may require regulatory approval. In addition, the commitments originally agreed upon by other PHI utilities contemplated PHISCo remaining in place and were approved prior to Order No. 18148. Accordingly, Exelon and PHI anticipate that the integration proposal in the District of Columbia will be addressed in the other jurisdictions and this filing will be provided to the other jurisdictions consistent with the requirements of those other jurisdictions.¹⁴

- Additional Impacts:

This Integration Plan would also require additional system integration work that was not part of the initial integration activities that have occurred and are ongoing in the time period since the merger closed. The following IT systems would require additional design and configuration changes: General Ledger system, Accounts Payable and Supply systems, Payroll/HR systems, and other feeder systems such as Customer Billing and Work Management. Preliminary estimates of the incremental costs to perform the work outlined above are approximately \$2 million.

¹⁴ To the extent that another jurisdiction asserts approval authority for any changes to the structure of PHISCo approved by the Commission, timelines may need to be extended to accommodate that approval process.

- Timing

Based on the amount and types of integration activities required under this Integration Plan, the timing of other integration projects, and the dependency of receiving approval for the plan, Pepco and Exelon currently estimate that implementation would be complete by March 31, 2018, if Commission approval of the Integration Plan as presented is given by February 1, 2017 and no approvals from other jurisdictions are required.

IV. Alternate Plan: Integration of Corporate Shared Services into EBSC

As an alternative to the Integration Plan described above, Pepco presents another option for the Commission's consideration. This Alternative Plan aligns with the initial integration plan that was implemented immediately following the consummation of the merger, and also aligns with the pre-merger corporate design for EBSC and ComEd, PECO and BGE.

Similar to the Integration Plan presented above, the Alternative Plan includes transferring only the current PHISCo corporate shared service areas to EBSC. These corporate shared service areas include the individuals of Human Resources, Finance, Legal, Corporate Strategy, Information Technology, and Supply who will now be responsible for supporting all Exelon affiliates. However, unlike the first option, the Alternative Plan leaves within PHISCo those operational functions that are dedicated to directly supporting only the PHI utilities such as customer service, billing, call centers, credit and collections, regulatory, and shared regulated electric and gas delivery services, including engineering, core systems, transmission, and asset and operational management. In addition, under this Alternative Plan, certain subsets of corporate shared services functions dedicated specifically to PHI would remain at PHISCo, including employees who are engaged in supporting the PHI utilities (but not other Exelon affiliates) in the areas of Legal, IT, Human Resources, Communications, Government Affairs, Finance, and Supply. This structure would align with the current structure of EBSC and its legacy utilities, ComEd, PECO, and BGE.

As explained below, while it is true that under this option Pepco would receive allocations of costs from two service companies, there are some advantages to this alternative structure, and no or minimal impact in terms of the amount and transparency of the costs being allocated to Pepco.

- Employee Impact:

Only current PHISCo employees within shared service functions of EBSC supporting multiple Exelon affiliates (i.e., not dedicated to PHI) will become employees of EBSC as part of the overall system integration plan.

It is estimated that approximately 300 employees¹⁵ will be transferred to EBSC. The impact to employees is expected to be minimal and will result in approximately 1,500 employees remaining employed by PHISCo to provide services exclusively to the PHI utilities. Moreover, the merger commitments related to employee benefits and office locations will not be affected by the Alternative Plan. See Attachment 1, page 2 for a chart showing the impact to the future structure of PHISCo and EBSC under the Alternative Plan.

The PHI executives who are required to remain employees of PHISCo under Commitment No. 73 will remain within the same legal entity as their employees. Those executives must remain employed at PHISCo under either alternative.

- PHISCO Structure:

Under the Alternative Plan, PHISCo will remain as a service company under PHI. The services that will be provided by PHISCo will directly benefit only the PHI utilities. The plan to have two separate service companies will allow regulators and other stakeholders to identify the utility operations services specific to PHI's utilities being provided by PHISCo. This design also allows the employees of PHISCo who will support the PHI utilities to remain within the PHI holding company structure, which will emphasize that the roles and services provided are for the direct benefit of the PHI utilities, like Pepco, and will further limit the risk of cross subsidization of Exelon affiliates.

- EBSC Structure:

EBSC will continue to offer the same pre-merger corporate management and administrative services to all its affiliates. EBSC's services will be consistently provided to all Exelon affiliates, including the PHI utilities.

¹⁵ As of January 1, 2016.

- Asset Transfer and Regulatory:

As discussed previously, no or minimal assets will be transferred under the Alternative Plan. As a result, PHISCo assets used in PHI utility operations will remain within the ring-fenced holding company structure. Also, the Alternative Plan is consistent with the initial post-merger integration plan that was developed and is currently being implemented. The Alternative Plan is also consistent with the plan discussed by the PHI utilities with their respective regulators in Delaware, New Jersey, and Maryland.

- Timing:

The Alternative Plan would be implemented as part of the overall system integration project, which has an estimated completion date of May 2017.

PHI Service Company Structure
Department Changes Transfers Under Integration Plan

Attachment 1
Page 1 of 2

Function	Department	PHISCO	BSC
Executive	Executive Management	X	
Finance	Budget / Forecasting		X
	Accounts Payable		X
	Payroll Services		X
	Risk Management		X
	Controller Services -Reporting, Research		X
	Audit, Insurance, Tax, Treasury		X
Communications	Communications		X
Government Affairs	Government Affairs - Other		X
	Government Affairs - Federal		X
Human Resources	Human Resources - Administration, Corporate		X
	Human Resources - PHI		X
IT	IT Support/Systems - Customer Systems		X
	IT Support/Systems - Power Delivery		X
	IT Support/Systems - Corporate		X
Legal Services	Claims		X
	Legal Services - Regulatory		X
	Corporate Secretary		X
	Legal Services - Corporate		X
Regulatory Affairs	Regulatory Affairs		X
Operations	Asset Management		X
	Energy Supply		X
	Environmental Services		X
	Meter Services		X
	Customer Services		X
	Operations		X
	Performance Management		X
	Special Billing		X
	Support Services		X
	Vehicle Resource Management		X
Real Estate	Facilities / Real Estate Services		X
Security	Security Services - Corporate		X
	Security Services - PHI		X
Supply	Sourcing - Corporate		X
	Sourcing - PHI		X

PHI Service Company Structure
Department Changes Transfers Under Alternative Plan

Attachment 1
Page 2 of 2
(Revised)

Function	Department	PHISCO	BSC
Executive	Executive Management	X	
Finance	Budget / Forecasting	X	
	Accounts Payable		X
	Payroll Services		X
	Risk Management		X
	Controller Services -Reporting, Research		X
	Audit, Insurance, Tax, Treasury		X
Communications	Communications	X	
Government Affairs	Government Affairs - Other	X	
	Government Affairs - Federal		X
Human Resources	Human Resources - Administration, Corporate		X
	Human Resources - PHI	X	
IT	IT Support/Systems - Customer Systems	X	
	IT Support/Systems - Power Delivery	X	
	IT Support/Systems - Corporate		X
Legal Services	Claims	X	
	Legal Services - Regulatory	X	
	Corporate Secretary		X
	Legal Services - Corporate		X
Regulatory Affairs	Regulatory Affairs	X	
Operations	Asset Management	X	
	Energy Supply	X	
	Environmental Services	X	
	Meter Services	X	
	Customer Services	X	
	Operations	X	
	Performance Management	X	
	Special Billing	X	
	Support Services	X	
	Vehicle Resource Management	X	
Real Estate	Facilities / Real Estate Services	X	
Security	Security Services - Corporate		X
	Security Services - PHI	X	
Supply	Sourcing - Corporate		X
	Sourcing - PHI	X	

Certificate of Service

The undersigned hereby certifies that on September 27, 2016, the forgoing was filed through the Delaware Public Service Commission's DelaFile electronic filing system, which automatically generates a notice of filing for all intervenors and parties to the docket.


